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## Turkey

### Retail Foods

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**Report Highlights:**

Fueled by increasing disposable income levels and a strong consumer demand, the Turkish food retail sector reached US\$ 121 billion in 2014. The share of food in the total retail sector is 60 percent and the food retail sector is expected to grow 8 percent annually from 2015-2018. However, 2014 marked an increase in food prices due to a severe drought which was then followed by heavy rains in 2015.

Discount chains continue to dominate the food retail sector. Private label products are increasing their share against branded products and the number of discount stores are still increasing at a fast pace.

Meanwhile, as profit margins get smaller, some players are seeking growth via mergers and acquisitions, by increasing efficiency and cutting costs instead of opening new stores.

**Post:**

Ankara

**Executive Summary:**

The history of shopping malls dates back almost 550 years in Turkey with the world famous Grand Bazaar, which was the first big covered bazaar in the world and is still a major shopping center in Istanbul. Having come a long way since then, the number of modern shopping malls in Turkey increased four times in the last decade and reached 333 in 2014, generating 60 billion TL in revenue. These modern shopping malls currently offer one million square meters (m<sup>2</sup>) of rental area, attracting 1.6 billion visitors and US\$ 45 billion in investment; US\$ 14 billion of which is foreign investment. Turkey is the 7<sup>th</sup> largest retail market in Europe (larger than Greece, Czech Republic and Portugal markets combined).

The Turkish economy grew 2.9 percent in 2014 and is expected to register a similar growth rate in 2015. GDP (in current prices) decreased from US\$ 823 billion in 2013 to US\$ 800 billion in 2014. The increase in dollar exchange rate triggered an increase in the prices of imported products. Turkey's food imports increased 11.2 percent in 2014 compared to 2013 whereas food exports increased 6 percent. Food prices registered 7.5 percent inflation from February 2014 to February 2015.

Despite economic fluctuations, Turkey has a population of approximately 78 million, almost half of which is below the age of 30 with a high consumption potential. This strong consumer demand still fuels the retail sector to be one of the fastest growing sectors in the Turkish economy. The retail sector is projected to grow more than the country's general economic performance in the upcoming 5 years, and food retail is expected to register an average of 8 percent annual growth in the same period.

Turkey is undergoing rapid urbanization, and the rate of urbanization has reached 75 percent. The population in large cities such as Istanbul, Ankara, Izmir and Bursa is increasing 10 percent on average every year. Consequently, one-third of the total retail sector is located in these cities.

Food retail holds the largest share in the total retail sector with 60 percent. Turkish food industry is enjoying continuous growth trends due to the young population of the country, high urbanization rates, and rising income levels. Commodities consumed the most in the sector are bread, pulses, sugar, dairy products, fresh fruits, and vegetables.

The most important factors affecting the shopping decisions of the average Turkish consumer are the proximity of the grocery retailer to their home/workplace, the prices of products, and the quality of products offered by retailers. Following these trends, leading supermarket chains increased their investment in small store formats with fewer products in more convenient locations and at discount prices. Turkish consumers' price-sensitivity increased due to rising prices in 2014, which positively affected modern chained outlets that launch frequent promotions and led to further growth of discount chain stores.

Although it is the fastest growing segment, foreign companies are hesitant to enter the local discount retailing market due to its intense price competition, thus leaving the entire arena to domestic players.

A study conducted by a major research company shows that the share of supermarkets in the total consumable goods market (excluding cigarettes) has increased to 57 percent in the last 10 years whereas the share of small retailers and traditional mom-and-pop stores called “bakkal” in Turkish (and will be referred to as such throughout this report) has decreased to 33 percent.

The retail sector is undergoing significant mergers and acquisitions. The fragmented profile of the sector is a major factor in these transactions where the total market share of the top four retailers does not exceed 20 percent. Both national and regional retailers are continuing to grow and the intense competition creates a fragmented structure in the sector. As discount retailers follow an active growth strategy, the sector is bound for consolidation in general.

**A. MARKET SUMMARY**

**I. The Retail Sector Profile**

The food retail sector in Turkey can be classified into two major groups: organized and unorganized retailers. Organized retailers include multi-format retailers, local (regional) supermarkets, discount retailers, and gas station stores. Unorganized retailers, also called the traditional market, constitute smaller, individual convenience stores called *bakkal* in Turkish and open-air bazaars. A description of food retail outlets referred to in this report is provided in the table below:

	Sales area (m <sup>2</sup> )	No. of cash registers	Offered features
<b>Hypermarkets</b>	2500 and above	8+	Food court, parking, ATM
<b>Large Supermarkets</b>	1000 - 2499	4+	Self service
<b>Supermarkets</b>	400-999	2+	Self service
<b>Small Supermarkets</b>	100-399	2	Self service
<b>Markets</b>	51-99	1	Main street
<i>Bakkals</i>	10-50	1	Side street
<b>Gas station stores</b>	10-50	1	Gas station

A more important classification that helps to explain the Turkish food retail sector is local versus national and international supermarket chains. As of June 2015, the top 150 supermarket chains with 10 or more outlets in Turkey have a total of 20,000 outlets. Even though the national chains seem to rule the market with sheer number of outlets, after removing the top 3 national discount chains (which account for more than half of the total number), the remaining figure shows the importance of local chain stores in penetrating the market. This also reflects the trend of switching to organized retail throughout Turkey.

Imported food products are generally not found in local supermarket chains or discount stores due to their relatively higher prices, with the exception of seasonal fruits and commodities like rice, walnuts, and almonds. On the other hand, high value imported items are increasing in number and variety in national and international super and hypermarkets like Migros, Metro, Carrefour, etc.

Below is a SWOT analysis of the retail food sector in Turkey:

<b><u>STRENGTHS</u></b>	<b><u>WEAKNESSES</u></b>
<ul style="list-style-type: none"> <li>- With its young and growing population, Turkey promises growth in both production and consumption of retail food items</li> <li>- Consumer trend is shifting towards organized retailers</li> <li>- Solid infrastructure in terms of distribution (logistics) and finance (banking)</li> <li>- Food is the most resistant sector against political and economic volatility because at times of crisis people may cut back on secondary needs like new clothes or entertainment, but don't change their food consumption</li> </ul>	<ul style="list-style-type: none"> <li>-Demand for alcoholic beverages is affected by religion and very high tax rates</li> <li>-High import duties are imposed on both agricultural and processed products</li> <li>-High shelf fees charged by large chain stores lead to high costs for introducing new products</li> <li>-Lack of official data and transparency affects business strategies</li> <li>- Traditional and cultural consumption habits affect consumers' preferences in their willingness to try new products or tastes.</li> </ul>
<b><u>OPPORTUNITIES</u></b>	<b><u>THREATS</u></b>
<ul style="list-style-type: none"> <li>- Highly interested young population is open for new brands and products</li> <li>- Growth in tourism sector also triggers the growth in food and beverage sector</li> <li>- The retail market has not yet matured nor been saturated which provides easier entrance opportunities for new products</li> <li>- The fact that organized retail still has 57 percent share of the market and is increasing its share every year presents the growth potential of the sector.</li> <li>- Due to its strategic location, Turkey acts as a hub for trade with its neighbouring countries</li> </ul>	<ul style="list-style-type: none"> <li>- Complex and extensive import procedures bring up the cost of imported products</li> <li>- For confectionary items there is a risk of being copied by a large local producer and marketed under a different brand name</li> <li>- Competition from European countries that have proximity advantage as well as preferential tariff rates</li> <li>- Economic and political instabilities may lead to exchange rate fluctuations, making imported items even more expensive</li> <li>- Unregistered economy and</li> </ul>

	counterfeiting may create unfair competition
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## **II. Trends in the Market**

It is no longer easy to open hyper markets in Turkey. Especially in large cities, it is difficult to find land that is large enough and the consumers also seem to be satiated with the hypermarket format. Therefore the main competition goes on in smaller formats such as supermarkets and discount stores.

As a result, it is no surprise that recent years mark the dominance of discount markets in the food retail sector. As of October 2014, there are 18,960 stores in Turkey and 66 percent of these are discount stores. Turkey's first discount chain BİM is the market leader with 6.7 percent market share and 4737 stores around Turkey.

This trend is expected to continue in the near future as well. However in the upcoming years, growth strategies of supermarket chains will change. As the market reaches saturation, they will no longer try to grow by opening more stores but by improving efficiency and reducing costs.

In order to compete with the discount stores, major multinational retailers are changing their strategies and going for diversified concepts such as fast shopping and gourmet or boutique stores. These are referred to as 'multi format retailers' throughout this report. The largest players in the multi-format segment are international chains such as Migros (6 formats), CarrefourSA (3 formats) and Tesco Kipa (5 formats).

Migros stands out as the largest multi-format retailer in Turkey with 3.2 percent market share. It converted the Jet-Cashier application that it had been using in its larger markets since 2009 into a store concept and created *M-Jet* stores which vary between 250-300 m<sup>2</sup>. These M-Jet stores include the best-selling brands from the Migros stores, and customers make their own payments without a cashier. In 2014 Migros collaborated with Petrol Ofisi (PO) to open M-Jet stores in select gas stations, replacing PO's own markets. This is the first instance in the sector of a nation-wide supermarket chain opening up stores in a nation-wide gas station chain.

Carrefour, on the other hand, introduced a concept that it previously only used in Paris where brands have their own little stores within the 13 thousand m<sup>2</sup> complex, which also incorporates a lounge and library, a make-up atelier, and an art corner. The store also has a gourmet product variety that competes with Macro Center (under Migros group) and specialty cellars for wine, cheese, meat, and delicatessen product groups.

Products and services offered to consumers by major national and international chains include private label food items, membership cards, and free home-delivery for purchases made from internet and mobile phone applications. Many supermarkets print periodical booklets and inserts displaying promotional items and distribute these in bundles to apartments. Some chains sell only produce that is grown with good agricultural practices to model a more 'green' attitude and differentiate themselves from their competitors.

BİM has recently introduced its own virtual GSM cell phone service called 'BimCell'. Launched in March 2012 in cooperation with Avea, a national GSM service provider, this service provides cheap fixed-price packages (including speaking, texting and/or internet). Customers can purchase their new phone lines (or transfer their current line) and buy credit at cash registers in BİM supermarket stores.

With the rise of discount stores, private label products have also been on the rise. According to the studies conducted by AC Nielsen, Turkey is the world's most rapidly growing market in the private label sector with a turnover reaching US \$2 billion. Private label products, which are priced 30 percent cheaper than well-known brands, account for 8 percent of the total sales in Turkey, and are most common in discount stores. In BİM for instance, private label products constitute more than 60 percent of the total sales.

The popularity of discount markets also resulted in a decline in the average size of stores. The size of these stores vary between 200-400 m<sup>2</sup> and they provide around 700 product varieties, whereas this figure ranges between 2000-2500 in local retailers. Hard-discount stores target the C segment where the average basket price varies between US \$5 – 15, and where a good percent of the total revenue comes from private label products. Industry sources estimate that the discount sector is currently 50 percent saturated and that there is still a 50 percent growth potential.

Another recent trend is the uniting of independent local chains under the roof of a single company to make joint purchases in order to benefit from economies of scale in terms of large-volume purchasing discounts that their multinational rivals are getting from the suppliers. The most significant example of this movement is the company Fayda Inc. (which means "benefit" in Turkish) that incorporates 72 local chains to make mass purchases and sell their own private label products. There is another similar attempt in the city of Samsun with 6 local chains coming together for a Cash & Carry concept.

In the Cash & Carry segment, Yildiz Holding, the largest Turkish confectionaries producer, is also trying a similar strategy with Bizim Wholesale Markets where they ask for a purchase commitment from their *bakkal* and other small business buyers, and then combine these with their own purchasing power to get even better prices from the suppliers. Currently there are 160 Bizim stores throughout Turkey.

E-commerce is also emerging as an important sales channel in food retailing. The number of internet users exceeds 35 million and it is expected that 60 percent of the Turkish population will have internet access at home by 2019. In line with this, e-commerce is expected to reach 12 percent of overall internet retailing in 2019. Internet retailing registered 25 percent current value growth in 2014, reaching TRY6.7 billion in volume.

Currently the majority of web sites that sell food items are targeting consumers with higher income levels with organic and specialty food items. Migros has been utilizing this channel for over 15 years and provides free delivery service for a cart amount of over 100 TL.

### III. Actors of the Organized Retail Sector

#### 1. Supermarkets

As a consequence of the fragmented market structure, total market share of the four largest players does not exceed one fifth of the total revenues.

Local (regional) supermarkets are increasing in number and in turnover volume as a result of the high level of transformation from *bakkals* to organized chain stores. Operating in only a limited number of cities, the majority of regional supermarkets in Turkey do not have more than 100 stores. Small-scale mergers and asset purchases are among the most common expansion strategies in this segment.

The table below lists the top 10 supermarket chains that opened the highest number of stores in the past year.

	May 31 <sup>st</sup> 2014	May 31 <sup>st</sup> 2015	Difference
<b>BİM</b> (National Discount)	4269	4737	468
<b>A 101</b> (National Discount)	3160	3885	725
<b>Şok</b> (National Discount)	2113	2358	245
<b>UCZ</b> (National Discount)	1000	956	- 44
<b>Ekomini</b> (National Discount)	923	1212	289
<b>Migros</b> (International)	779	1011	232
<b>Hakmar Express</b> (İstanbul Discount)	276	300	24
<b>Carrefoursa Exp.</b> (International)	249	384	135
<b>Kiler</b> (National)	210	201	- 9
<b>Bizim</b> (National Wholesale)	156	160	4

Source: [www.ortakalan.com.tr](http://www.ortakalan.com.tr)

The top three players BİM, A101 and Şok are discount stores and the last column shows how rapidly these discount stores are growing. The discount retail market in Turkey is composed of hard and soft discount retailers which are distinguished from each other with respect to the number of items they carry, the share of private label products in their total revenues and whether they have shelf layouts or not.

#### 2. International Supermarket Chains

Migros of Switzerland entered the Turkish market in 1954 as the first foreign supermarket chain in cooperation with the Istanbul Municipality. In 1975, the majority of Migros's shares were transferred to the Koc Group. After selling their discount store chain 'Şok' to Yıldız Holding in 2011, Migros is now trying to fill that void with its new concept stores called M-Jet and Mini Tansas. Despite their small size, these stores are not discount stores and maintain a supermarket concept with nearly 3200 product

types.

Metro Group of Germany has been active in Turkey since 1990 with Metro Cash & Carry and Real Hypermarkets. Metro is the first cash & carry store that opened in Turkey that targets professional commercial customers such as hotel, restaurant, and kiosk operators, caterers, and small food retailers - unlike the common supermarket retailers that target private households. In 2015, Metro gave two examples of expanding horizons in the retail sector: First, they opened the GastronoMetro in order to contribute to the improvement of gastronomy and cuisine culture in Turkey on a 1.700 squaremeter area. In collaboration with Boğaziçi University, GastronoMetro organizes training sessions with Michelin star owner chefs from around the world on operational management, hygiene, world cuisine, menu concept, etc. for anyone that is interested. All 4,000 employees of Metro Grossmarket will also be trained here in the upcoming 3 years. Metro also started a HORECA Festival (initials stand for Hotels, Restaurants and Catering Facilities) this year. The festival started on April 20, 2015 in Samsun, visited the 13 cities accomodating a Metro Grossmarket store, and ended in İstanbul on May 14, 2015. In this festival, local produce bearing a geographical mark from various regions of Anatolia were promoted and over 7,000 professional customers attended the festival to discuss their issues and demands.

The French chain Carrefour entered the Turkish market in 1993. Three years later, in 1996, Carrefour partnered with Sabanci Group, a leading conglomerate in Turkey, by selling 40 percent of its shares and keeping 60 percent under its ownership. Together, the Carrefour – Sabanci merger became CarrefourSA. In 2013, Sabanci group purchased an additional 14 percent of shares from Carrefour for TL 141 million and increased its share to 50.8 percent. Then Sabanci Group sold its DiaSA brand, a partnership with the Spanish soft discount chain Dia (60 percent Dia - 40 percent Sabanci), to Yildiz Holding for TL 320 million in May 2013.

Tesco, a UK origin company, acquired the local Turkish chain Kipa in November 2003 and introduced the Kipa Express concept in 2006. However, Tesco is facing a struggle against the heavy discounter BİM. Tesco said it would now accelerate plans to "focus the business on its heartlands" at its profitable stores around Izmir and the Aegean Region, suggesting it is likely to pull out of the east of the country where the brand has not taken off. Analysts expect selective store closures as the company said it wanted to minimize capital spending and improve profitability.

### **3. Gas Station Markets**

According to Turkish Petroleum Corporative (TPAO) data, there are 13,000 gas stations in Turkey, most of which have a market. These markets mostly provide convenience products that one could need on the road and their share in the total retail sector is negligible.

Below is a list of the most popular gas station markets and their stores in Turkey.

1. There are 680 British Petrol gas stations in Turkey, and they all have markets called 'BP Shops'. Some stations located on busy inter-city routes also have fast food chains such as Burger King, McDonald's and Pizza Hut.
2. Shell Co. operating in Turkey for 90 years, merged with Turcas (Turkpetrol) in 2006, and now

has 1000 gas stations which all have markets in them.

3. Petrol Ofisi, purchased by the Austrian OMV in 2012, has 2200 stations which all have markets, some of which also have Würth, DiaSA, Aslı Börek, and Simit Sarayı restaurants. In 2014 Migros collaborated with Petrol Ofisi (PO) to open M-Jet stores in select gas stations, replacing PO's own markets.
4. Opet has a total of 1424 stations, including its Sunpet brand, and they all have markets.
5. Russian Lukoil purchased Akpet in 2008 and started converting all 700 stations to Lukoil to give them a corporate identity. These stations also have markets and over 300 restaurants.

#### **IV. Actors in Unorganized (Traditional) Markets**

*Bakkals*, open-air bazaars, and small convenience stores that sell only alcoholic & non-alcoholic beverages, cigarettes, packaged confectionaries, and unpackaged dried nuts are the most common forms of traditional outlets in Turkey.

*Bakkals* are small mom-and-pop outlets which are usually around 50 m<sup>2</sup> or less and are located on the side streets of most neighborhoods all over the country. The majority of daily household and personal care consumption products can be found in *bakkals*, yet with fewer brand alternatives. Under pressure from the fast growing retail chains, the number of *bakkals* in Turkey decreased from 165,000 to less than 90,000 in the last decade. This is also a reflection of the shift towards organized retail in the Turkish market. However, due to the highly fragmented nature of the food retailing market, convenience stores still hold a significant market share.

In every city, each town has an open-air bazaar at least one day of the week in Turkey. Open-air bazaars mainly sell fresh vegetables and fruits. *Bakkals*, open-air bazaars, and small convenience stores are still preferred by Turkish consumers because of their convenient locations and because open bazaars in particular offer not only fresh fruits and vegetables, but also a wide variety of products including clothing, kitchenware, over-the-counter products, and personal care products at low prices.

*Bakkals* and convenience stores make their procurements from various channels including distributors, agents, wholesalers, and cash & carry hypermarkets. Open-air bazaars obtain produce mostly from food wholesale markets in big cities, but in small towns farmers come and sell their own fruits and vegetables as well.

### **B. ROAD MAP FOR MARKET ENTRY**

#### **I. Market Structure**

The Turkish retail market is highly competitive and rapidly changing with major acquisitions and consolidations. Even though the exact market share of each chain is not crystal clear, the table below gives an idea of the market share of each type of store in the organized retail sector.

Imported packaged food items are sold mostly in large supermarkets that target A&B customer profiles. In traditional markets, local supermarkets and discount stores that target the C profile consumer, imported items are rarely found.

As for non-organized retailers such as *bakkals* and open-air bazaars, only bulk commodity products such as pulses and rice can be found in terms of imported products, since these traditional retailers sell basic food items rather than processed goods.

The table below provides the size of major players in the market.

<b>Major Supermarket Chains in Turkey</b>						
<i>Company Name</i>	<i>Type of Outlet</i>	<i>Ownership</i>	<i>Turn-over (2014)</i>	<i>Number of Outlets</i>	<i>Location</i>	<i>Purchasing Agent</i>
<b>BİM A.S.</b>	Hard Discount stores	Turkish	TL 14.5 billion	4737	Nationwide	Importers
<b>Migros A.S.</b>	- Hyper (5M & 3M Migros) - Super (2M & M Migros, M-Jet, Tansaş) - E-trade (www.kangurum.com.tr) - Niche (Macrocenter)	Turkish	TL 8.1 billion	Migros 1011 Macrocenter 31	Nationwide & International	Direct & Importers
<b>Carrefour-SA</b>	Hyper (CarrefourSA) Super (CarrefourSA Express)	French 46.2% Turkish 50.8%	TL 3.1 billion	412	Nationwide & International	Direct, Importers
<b>Tesco-Kipa</b>	Hyper, super and Express stores	U.K. 93% Turkish 7%	TL 2.2 billion	172	Nationwide	Importers
<b>Metro Group</b>	Wholesale (Metro) Supermarket(Real)	German	Euro 2.5 billion	32 Metro 13 Real	Nationwide	Direct, Importers
<b>Yildiz Holding</b>	- Soft Discount(Şok)	Turkish	TL 3.5	2358 Şok 160 Bizim	Nationwide &	Importers/ Wholesaler

	- Wholesale ( <i>Bizim</i> )		billio n		Internationa l	s
<b>A101</b>	Hard Discount	Turkish	TL 3.4 billio n	3885	Nationwide	Importers/ Wholesaler s
Source: Websites of the retailers, press releases * Foreign Exchange Rate at the time of this report: 1US\$ = 2.7 TL						

## II. Mergers and Acquisitions

While foreigners are reluctant to enter the Turkish market due to its intense competition, local players are constantly seeking growth opportunities either through capturing market share with aggressive store openings or acquisitions.

One of the major acquisitions was in 2008 when Migros was sold by Koc Group to the British BC Partners Private Equity Fund for US \$3.2 billion. Although this was the largest acquisition in the sector, it was not noticeable to consumers because BC Partners kept the same management personnel and made no changes to the brand or the concept.

In 2011, Migros sold its discount store line “Şok” (established in 1995 and having 1,230 stores and TL 1.2 billion in turnover) to Yildiz Holding for US\$ 380 million. This acquisition made Yildiz Holding the largest competitor of BİM which has over 4,700 stores in the discount segment.

Yildiz Holding also acquired the chocolate producer Godiva in December 2007, and the British biscuit producer United Biscuits in 2014. Often identified with their confectionary brand Ülker, the group also bought two soft discount chains: DiaSA (1217 stores for 320 million TL) and Onurex (119 stores for 33 million TL). They also introduced a Turkish version of cash & carry stores with Bizim supermarket chains. The food retail sector was not used to a major supplier (having 10 percent share of the products displayed on their shelves) becoming their competitor.

After Carrefour sold Dia and Migros sold Şok to Yildiz Holding, there is no foreign investment left in the discount segment (apart from a minor 3.5 percent share of BİM). The major reason behind this is the decrease in profit margins as a result of heavy competition from the local players.

CarrefourSA entered 2015 fast and purchased three local supermarket chains in the first 6 months. First they bought Ismar (with 26 stores) and 1e1 (29 stores) and then bought 85 percent of Kiler supermarket’s shares for TL 429.6 million (200 stores).

## III. Distribution Channels

Due to the global financial crisis, efforts to minimize costs have led to a trend to eliminate as many intermediaries as possible between the producer and the customer. Although distribution options vary depending on the product involved, the typical product goes through the following stages to reach the

consumer: manufacturer/importer à wholesaler/distributor à retail unit. For imported products, the importer or agent is typically also the wholesaler and/or distributor. A significant number of distributors offer nationwide service, and national distributors distribute the majority of food and other consumer goods.

Most hypermarkets import only a fraction of their total imported products directly; they generally purchase through importers and wholesalers. Imported goods constitute around 4 percent of the total turnover of the food products retail sector.

Nearly all major suppliers today have their assigned chain-store departments which are intra-specialized as national and local chains. So, supermarkets mostly purchase directly from the suppliers themselves instead of agents or distributors.

Economies of scale can be observed in every aspect of the retail sector. These trends lead to a consolidation of distribution channels as well. Major distributors are currently preparing to establish regional hubs where products from various suppliers will be gathered and distributed to the markets in that region.

#### **IV. Laws and Regulations**

As part of the European Union accession process, the 12th Phase which relates to food regulations began on June 30, 2010. As part of this process, Turkish laws and regulations are being reformed and European standards are being applied in the food sector.

The increase of organized retail in the total food retail sector is significant in terms of diminishing the unregistered economy. On the other hand, the substantial increase in the size of organized retailers has led the industry to ask for a regulation to protect small merchants and craftsmen from the giants who belong predominantly to foreign and local large capital groups.

Eventually, a Retail Law was passed in 2015 to regulate the establishment, commercial activities, and monitoring of large supermarkets, defined as stores constituting an area of 400 m<sup>2</sup> or more. The law defines terms such as shopping mall, supermarket, chain market, private label, franchise, and branch, and simplifies retail store opening procedures.

The law mainly aims to level the playing field for small producers against their multinational rivals, to support small and medium sized operations and to increase production. In this respect, retail stores were banned from charging extra fees from producers under indirect claims such as store opening, repair works, etc. Discount and promotion periods were also restricted.

Another provision of the law is to spare minimum one percent of shelf space in retail stores for local products. This is expected to increase the competitive power of small and local producers who are struggling for shelf space. The law also mandates the allocation of minimum 5 percent of the total shopping area for small businesses and craftsmen in shopping malls. Another important feature of the law is that it brings the maximum payment term of supermarkets to suppliers down to 30 days for perishable goods. In recent years, supermarkets' bargaining power against suppliers have increased immensely as a result of consolidations and increased sales. Supermarkets tend to take advantage of this

situation by deferring payments and imposing high shelf fees to the suppliers whenever possible.

Overall, the new law is expected to reflect positively in the food retail sector.

## V. US Retail Food Product Exports

Since 2001, consumer-oriented agricultural imports to Turkey have increased at a modest rate. While imports account for only about 4 percent of retail food sales, an increasing variety of products are finding their way onto the shelves in recent years.

Other than commodities like rice and walnuts, tropical fruits such as bananas, pineapples, mangos, and papayas are also imported to Turkey. Imported bananas and kiwis are also available at traditional markets whereas mangos and papayas are still for luxury consumption and are only available at large supermarkets and specialty retail outlets. Turkey’s imports of niche items like golden berries and cranberries spike once in a while following a popular event but such trends usually do not last for more than one year.

The major U.S. food exports to Turkey are rice, oilseeds, soy, tree nuts, cereals, and pulses, followed by wine, cheese, snack foods, chocolate, confectionary goods, and sauces.

Advantages and challenges facing U.S. exporters in the Turkish market are summarized in the table below:

<b>Advantages</b>	<b>Challenges</b>
The increase in purchasing power and urbanization rate combined with the good reputation of U.S. food products lead to a fairly constant increase in U.S. agricultural sales to Turkey.	Turkey’s Customs Union with the EU with lower import duties and harmonization of regulations to member countries creates price advantages for Europeans. EU and neighbouring countries also enjoy lower freight costs and shipping time advantages.
Some U.S. products are better priced than local products, such as pulses, and in general are of better quality than the competition.	High value of the dollar against the Turkish Lira and the volatile exchange rate made some U.S. products more expensive.
Increased preference for organized retail stores leads consumers to discover new products and to become more aware of imported brands.	High import duties may be imposed on agricultural commodities as well as packaged products and the regulations are complicated, non-transparent, and subject to overnight changes.
An increasing young population is eager to buy and try imported products. Consumers have a positive perception of U.S. products in terms of quality and are willing to pay more for them.	Local food processing sector is well developed and high quality goods are sold at competitive prices. Rich diversity in agricultural production provides ingredients for most sub-sectors.
There is a growing demand for specialized products such as Tex-Mex, diabetic and	High shelf fees charged by the large supermarket chains lead to higher costs for introducing new

diet foods, sauces, ready-to-eat foods, and frozen food products, which are imported as well as locally produced.	products into the market.
International retailers who market a wide range of imported products in the sector have a strong influence on purchasing patterns.	For confectionaries, there is a risk of products being copied by a local producer and being introduced into the market under a different name.

In September 2012, the Food Retailers Association was formed with the board of directors composed of representatives of the top 10 retail chains (including Bim, CarrefourSA, Migros, Tesco Kipa, Metro, Kiler, Uyum, etc.)

Organized retailers are able to strengthen their position against the suppliers as a result of consolidation. Large supermarket chains ask for high “shelf fees” to sell a product in their stores. In other words, they ask the supplier to pay them a certain amount of money to put the product in their stores. This price is negotiable and varies according to the type or brand of product and according to the supplier in the sense that products with a higher profit margin are charged higher shelf prices which may go up to US \$30,000. On the other hand, large suppliers that provide well-known brands and highly demanded products pay less or no shelf price.

It is therefore very useful to get in contact with importers, especially those with nationwide distribution services, when trying to enter the Turkish retail market, since their personal relationships with the retailers could create price advantages. Moreover, in order to make sure that the products are placed visibly on the shelves, sales representatives of companies pay regular visits to supermarkets, and they try to establish good relations with related floor workers. A local partner is therefore crucial in order to organize regular visits to the stores like local competitors do and to sustain and/or improve product visibility.

A list of major Turkish food importers can be obtained from TUGIDER (Association of Food Importers) or from FAS Ankara. TUGIDER has 155 members and represents a majority of Turkish food importers. This organization can be contacted at (90) (212) 347-2560, via fax (90) (212) 347-2570, or at [www.tugider.org.tr](http://www.tugider.org.tr).

U.S. exporters are highly recommended to participate in food shows in Turkey. The upcoming major food shows in Turkey in 2015 and 2016 are listed below with their specific dates and venues.

Date	Upcoming Major Food Trade Shows in Turkey	City (venue)
10-11 June 2015	<b>Snackex:</b> Savoury snacks and snack nuts trade show and conference <a href="http://www.snackex.com/">http://www.snackex.com/</a>	Istanbul (ICC)
10-13 Feb 2016	<b>Anfas Food Product :</b> 23rd International food trade exhibition <a href="http://www.anfasfoodproduct.com/index.php/en">http://www.anfasfoodproduct.com/index.php/en</a>	Antalya
14-16 Apr	<b>ANUFOOD Eurasia (powered by ANUGA):</b> International food and beverage products, refrigeration technologies, shop equipment, services and catering	Istanbul (Tuyap)

2016	trade show <a href="http://www.anufoodeurasia.com/">http://www.anufoodeurasia.com/</a>	
27-30 Apr 2016	<b>Ekoloji Izmir:</b> Organic foods tradeshow, co-held with Oliv-Tech <a href="http://ekolojiizmir.izfas.com.tr/en/anasayfa/">http://ekolojiizmir.izfas.com.tr/en/anasayfa/</a>	Izmir (Izfas)
4-6 May 2016	<b>Fi Istanbul:</b> Food Ingredients <a href="http://www.figlobal.com/istanbul/home">http://www.figlobal.com/istanbul/home</a>	Istanbul (ICC)
3-6 Sep 2015	<b>Worldfood:</b> 23 <sup>rd</sup> International food & beverage, food ingredients and food processing exhibition. Co-held with IPACK Turkey <a href="http://www.ite-turkey.com/ver3/fairs/gida_en/">http://www.ite-turkey.com/ver3/fairs/gida_en/</a>	Istanbul (CNR)

While it is recommended to go through importers for high value items, support can also be sought from U.S. associations which have a presence in Turkey for commodities, such as USA Rice Federation, US Dry Bean Council, etc.

### **C. COMPETITION**

The major competition facing U.S. exporters is from the European Union. EU countries enjoy advantages of a preferential agreement within the Customs Union agreement such as lower import duties. The EU also benefits from lower freight charges and shorter delivery times due to their proximity to Turkey compared to the United States. Investments of major European hypermarket chains such as Carrefour of France, Metro and Real of Germany, and Tesco of the UK have also played a role in the dominance of European countries in Turkish imports of retail food products. The majority of imported items from Europe are dairy products, snack foods, cheese, processed fruits, and vegetables.

Turkey's processed food sector is modern and developed, and is capable of manufacturing high quality items in large quantities and in various sub-sectors. Turkish food producers are flexible and innovative and tend to produce products similar to imported ones when they see a good opportunity to increase sales, which creates a strong competition for imported food items.

According to U.S. Census Trade Data, Turkey imported US \$401.6 million worth of consumer-oriented agricultural products from the United States in year 2014. Among the long list composing this figure, some of the most significant imports are tree nuts with US \$268.8 million, followed by, prepared food with US \$30.7 million, processed vegetables with US \$13.9 million, and dairy products with US \$16.6 million.

### **D. BEST PRODUCT PROSPECTS**

#### **I. Products Now Present in the Market**

The best product prospects for the imported food market are well-known-brand products in the

following categories: sauces, soft drinks and alcoholic beverages, cocoa, instant coffee, chocolate and confectionary goods, cookies, crackers, breakfast cereals, and cheese varieties. Major imported items are summarized below:

**Cocoa and chocolate:** Turkey is import-dependent in this category, since there is no local production of cocoa. Meanwhile, the Turkish chocolate sector has been growing approximately 10 percent annually for the past ten years compared to the 5 percent growth in the global chocolate sector. Chocolate consumption is in direct proportion to income level, and 40 percent of total chocolate consumption is realized in the Marmara Region. The market is currently dominated by local production, but consumers are open to new tastes and brands.

**Coffee:** Despite the dominance of Nestle and Jacobs brands in the instant and filter coffee markets (respectively), a niche market for flavoured gourmet coffee in the upscale cafes and restaurants emerged after the arrival of Starbucks and Gloria Jean's. The German coffee shop Tchibo also entered the Turkish market in December 2006 and has opened 52 stores in 11 cities. High quality coffee varieties can find a market in the high-end supermarkets such as Macro-Centers or other international supermarkets.

**Dry nuts and confectionary items:** Turkish people consume walnuts, almonds and sunflower seeds as confectionary items, and the United States is the largest supplier of walnuts and almonds to Turkey. Turkey imported US \$268.8 million of total tree nuts from the United States in 2014. There is always a market for U.S. nuts in Turkey provided that they are price competitive.

**Wine:** Turkey is the world's 5th largest grape producer with 3.7 million tons and is 4th in terms of the area planted with 567 thousand hectares, but only 2 percent of this grape production goes into wine making. Even though annual wine consumption is still around 1 liter per person, it is a growing market with an increasing number of local brands. Turkish consumers are thus being introduced to different wine varieties, and imported wines are increasing in the market.

**Beer:** There is a shift in the beer choices of Turkish consumers after being limited to a few lager varieties available in the market for decades. The new malt varieties introduced in recent years have shown an incredible increase in market shares, and as more brands come into the market consumers are opening up to new tastes and products. Beer consumption in Turkey is increasing due to the increase in young population and the number of foreign tourists. Beer has become the most consumed alcoholic beverage due to its price advantage, and reached 1 billion litres in 2014. Certain Belgian beer brands are now sold at high-end pubs and are highly demanded by consumers, but consistent supply is an issue.

**Flour and flour-based products:** Imported crackers, cookies, diet breads, crisp breads, and special kinds of pasta are present in the Turkish market. These products tend to appeal to higher income consumers and are found at upper-middle income retail outlets (specialty shops, supermarkets, and hypermarkets). Products with an 'edge' that the local competition doesn't have such as being sugar free, gluten free, or other similar features would secure a better place on the shelves by offering consumers a reason to pay a relatively higher price for an added value.

**Breakfast Cereals:** Corn flakes, instant oats, muesli, bran fiber flakes with raisins, mixed fruit, and chocolate cereals are increasing in variety as they are welcomed by Turkish consumers as breakfast

items. They are preferred mostly by urban people and can even be found at discount stores.

**Sauces and syrups:** Imports of these products continue to grow as consumer tastes diversify. These products are found mostly in upper-middle income retail outlets. In 2014 Turkey imported US\$ 1.2 million worth of condiments and sauces from the United States. Soy sauce, hot sauces, and barbeque sauces are the most popular imported sauce varieties in the market.

**Functional foods:** Consumption of functional food products has been growing rapidly in line with the consumer demand for healthy products. Currently diet products, probiotic yogurt varieties, and herbal teas are the major types of functional foods present in Turkey. Functional food additives, toddler foods, and in general products that are 'enriched' in any way promise a high growth potential.

## **II. Products with Strong Sales Potential and Not Present Substantially in the Market**

**Organic processed products:** In line with the healthy trend, organic products are gaining popularity in Turkey during the past few years. As the prices of organic products come down to more reasonable levels every year, the demand also increases in direct relation. Even though Turkey is a big grower of organic produce, organic products currently found on the shelves are limited to fresh produce, eggs, and herbs. There are only a few processed goods like organic yogurt, chocolate, jams, tahini, etc. available. Post forecasts that organic processed product varieties would have substantial sales potential in the Turkish market in the upcoming years.

**Prepared food:** As more women join the work force and life styles change, processed foods are increasing their popularity among urbanites who do not have the time to cook after coming home from work. The ready-to-eat and ready-to-cook meals market has a high potential in this respect. Turkey imported US\$ 30.7 million worth of prepared food from the United States in 2014.

**Gourmet/Foreign Ingredients:** As Turkish consumers' tastes become more sophisticated, there is a growing interest in restaurants featuring novel foods such as "Tex-Mex", "Chinese", "Thai" and "Japanese." This is bound to spread into retail sales as well. Recently there is a visible increase in sauce varieties of different cuisines for instance. Ingredients used in making these types of ethnic dishes promise a growing sales potential, not only by the end users but also by restaurants who serve these cuisines.

**Healthy Snacks:** Health bars and other healthy snacks are not substantially present in the market but consumers are aware of the products. In 2014 Turkey imported US\$ 1.9 million of snacks from the United States. This is a good sales opportunity for suppliers who would like to benefit the rising 'healthy consumption' trend before the void is filled.

## **III. Products Not Present in the Market**

**Genetically engineered ingredients:** No genetically engineered (GE) products are approved for human consumption in Turkey. Regulations in Turkey may be subject to drastic changes over short periods of time, so exporters should be aware of the latest regulations before making any plans. The biggest developments in terms of regulations in the past few years have been on the import ban of biotech

products and import allowance of meat. For detailed information on these subjects please refer to the related FAS reports on: <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>

It is not recommended to export anything that has a shelf-life less than 6 months into the Turkish market due to the shipment time from the United States and also because the extensive import procedures may take up to several weeks. Also, products like expensive wine varieties turn out to be even more costly when a few bottles have to be given up at the customs for import testing procedures.

It is always useful to take into consideration that taste preferences of Turkish consumers can be quite different from U.S. consumers. Even though globalization has made urban consumers more open to trying and accepting new tastes, Turkish people in general can be quite resistant to try new tastes, so some products may need to be adapted according to the local taste.

Examples of failure of some products in the Turkish market in the past were mostly due to inadequate marketing and brand positioning strategies when the product lines were introduced. Adopting products popular in the west is a large part of the modern Turkish lifestyle, and internationally known brand names are useful in this respect. Exporters should be particularly sensitive to brand positioning and be ready to invest in necessary research and marketing activities for a successful introduction.

## **E. POST CONTACT INFORMATION**

For more information on high value food items and other agricultural sector reports for Turkey or other countries around the world, please refer to the FAS home page at the following URL address: <http://www.fas.usda.gov>.

FOREIGN AGRICULTURAL SERVICE offices in the below addresses help exporters get in touch with Turkish importers and vice versa.

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